

ORDER NO. 4026

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Mark Acton, Vice Chairman;
Tony Hammond; and
Nanci E. Langley

Competitive Product Prices
Global Reseller Expedited Package Services 2
(MC2013-51)
Negotiated Service Agreements

Docket No. CP2017-224

ORDER APPROVING ADDITIONAL GLOBAL RESELLER EXPEDITED PACKAGE
SERVICES 2 NEGOTIATED SERVICE AGREEMENT

(Issued August 2, 2017)

I. INTRODUCTION

The Postal Service seeks to include an additional Global Reseller Expedited Package Services 2 (GREPS 2) agreement (Agreement) within the GREPS 2 product.¹ For the reasons discussed below, the Commission approves the Postal Service's request.

¹ Notice of United States Postal Service of Filing a Functionally Equivalent Global Reseller Expedited Package 2 Negotiated Service Agreement, July 24, 2017 (Notice).

II. BACKGROUND

Agreements included within the GREPS 2 product offer discounted prices for Priority Mail Express International, Priority Mail International, and Outbound Single-Piece First-Class Package International Service to U.S.-based consolidators, freight forwarders, and large shipping companies. These companies in turn serve as resellers that market shipping services at discounted prices to their customers, especially small- and medium-sized businesses.

On July 24, 2017, in accordance with 39 C.F.R. § 3015.5, the Postal Service filed its Notice, along with supporting documents. In the Notice, the Postal Service asserts that the Agreement is functionally equivalent to the baseline agreement for the GREPS 2 product and requests that the Agreement be added to the existing GREPS 2 product. Notice at 3. Among the supporting documents, the Postal Service included a copy of the Governors' Decision authorizing the GREPS 2 product, the Agreement proposed to be added to the product, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that unredacted portions of the Agreement, customer-identifying information, and related financial information remain under seal. *Id.* Attachment 4.

The Agreement is intended to take effect September 1, 2017.² It is set to expire August 31, 2018. See Notice at 4.

On July 25, 2017, the Commission issued a notice establishing the instant docket, appointing a Public Representative, and providing interested persons with an opportunity to comment.³

² See Notice at 4; see also Docket No. CP2016-166, Order Approving Modification Five to Agreement and Denying as Moot Motion for Temporary Relief, July 26, 2017, at 1-2 (Order No. 4017).

³ Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, July 25, 2017.

III. COMMENTS

The Public Representative filed comments on July 31, 2017.⁴ No other comments were received.

Based upon a review of the Postal Service's filing, including the information filed under seal with the Commission, the Public Representative concludes that the Agreement is functionally equivalent to the baseline agreement and that the negotiated prices in the Agreement should generate sufficient revenue to cover costs.

PR Comments at 3. The Public Representative notes several differences between the Agreement and the GREPS 2 baseline agreement but states that these differences are specific to the customer. *Id.*

The Public Representative additionally notes that the Postal Service's financial model does not directly address whether the addition of the Agreement to the GREPS 2 product will result in the product as a whole covering costs. *Id.* He states, however, that because the Agreement appears to cover its attributable costs, cost coverage for the product as a whole will not drop below 100 percent as long as the product currently covers its attributable costs. *Id.* at 3-4. He points out that the Commission will have an opportunity to review the financial results for the Agreement in a future Annual Compliance Determination (ACD). *Id.* at 4.

IV. COMMISSION ANALYSIS

The Commission's responsibilities in this case are to ensure that the Agreement: (1) is functionally equivalent to the baseline agreement established for the GREPS 2 product; and (2) satisfies the requirements of 39 U.S.C. § 3633 and applicable Commission rules (39 C.F.R. §§ 3015.5 and 3015.7).

Functional equivalence. In Order No. 1746, the Commission approved the addition of the GREPS 2 product to the competitive product list and designated an

⁴ Public Representative Comments on Postal Service Notice Concerning an Additional Global Reseller Expedited Package 2 Negotiated Service Agreement, July 31, 2017 (PR Comments).

agreement as the baseline agreement for assessing the functional equivalence of agreements proposed for inclusion within the GREPS 2 product.⁵

The Postal Service asserts that its filing demonstrates that the Agreement is functionally equivalent to the baseline agreement and requests that the Agreement be included within the GREPS 2 product. Notice at 5. It asserts that the Agreement fits within the draft Mail Classification Schedule language for the GREPS 2 product. *Id.* at 4. The Postal Service also asserts that the Agreement and the baseline agreement possess similar cost and market characteristics and the same functional terms but states that prices may differ. *Id.* at 4-5. The Postal Service identifies numerous differences between the Agreement and the baseline agreement but asserts that these differences do not affect the fundamental service being offered or the fundamental structure of the Agreement.⁶

The Commission has reviewed the Postal Service's reasons for asserting that the Agreement shares similar cost and market characteristics with the baseline agreement; meets the pricing formula and falls within the classification established in the Governors' Decision authorizing this product; and comports with 39 U.S.C. § 3633 and applicable Commission rules. It also has considered the Public Representative's comments. The Commission concludes that the Agreement is substantially similar to the baseline agreement and that the differences between them do not fundamentally alter either the service the Postal Service will provide under the Agreement or the structure of the Agreement. The Commission therefore finds that the Agreement may be included within the GREPS 2 product.

Cost considerations. The Commission reviews each competitive product to ensure that it covers its attributable costs, does not cause market dominant products to subsidize competitive products as a whole, and contributes to the Postal Service's

⁵ See Docket Nos. MC2013-51 and CP2013-64, Order Adding Global Reseller Expedited Package Contracts 2 to the Competitive Product List Negotiated Service Agreement, June 13, 2013, at 8-10 (Order No. 1746).

⁶ Differences include, among others, revised definitions, revisions to existing articles, the renumbering of several articles, the inclusion of new articles, and revised annexes. *Id.* at 6-9.

institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by a product exceeds its attributable costs, the product is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, a product that covers its attributable costs is likely to comply with 39 U.S.C. § 3633(a).

The Commission has reviewed the Postal Service's filing, including supporting financial analyses provided under seal, and the Public Representative's comments. Based on this review, the Commission finds that the Agreement should cover its attributable costs. The addition of the Agreement to the GREPS 2 product will not cause cost coverage for the product to fall below 100 percent because, as the Commission found in the FY 2016 ACD, the product as a whole covers its attributable costs.⁷ Consequently, the Commission finds that the addition of the Agreement to the GREPS 2 product should allow the product to continue to comply with 39 U.S.C. § 3633(a)(2). Because it finds that the addition of the Agreement to the GREPS 2 product should allow the product to cover its attributable costs, the Commission finds that the addition of the Agreement to the product should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, it finds the addition of the Agreement to the GREPS 2 product is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). Accordingly, a preliminary review of the Agreement indicates it is consistent with section 3633(a). The Commission will review the Agreement's cost coverage, the cost coverage of the GREPS 2 product, and the contribution of competitive products as a whole to the Postal Service's institutional costs in the ACD to ensure that they continue to comply with 39 U.S.C. § 3633(a).

⁷ Docket No. ACR2016, Annual Compliance Determination, March 28, 2017, at 78, 85-86.

Other considerations. The intended effective date of the Agreement is September 1, 2017. See Notice at 4; see also Order No. 4017 at 1-2. The Postal Service shall promptly notify the Commission should there be a change in the effective date of the Agreement. The contract is set to expire August 31, 2018. See Notice at 4. If the Agreement is terminated prior to the scheduled expiration date, the Postal Service shall promptly file notice of such termination with the Commission in this docket.

V. ORDERING PARAGRAPHS

It is ordered:

1. The Agreement filed in Docket No. CP2017-224 is included within the Global Reseller Expedited Package Services 2 (MC2013-51) product. The revision to the Mail Classification Schedule appears below the signature of this Order and is effective immediately.
2. The Postal Service shall promptly notify the Commission should there be a change in the effective date of the Agreement.
3. The Postal Service shall promptly file notice of the Agreement's termination with the Commission in this docket if the Agreement is terminated prior to the scheduled expiration date.

By the Commission.

Stacy L. Ruble
Secretary

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products

2500 Negotiated Service Agreements

2510 Outbound International

2510.7 Global Reseller Expedited Package Contracts

2510.7.6 Products Included in Group (Agreements)

Each product is followed by a list of agreements included within that product.

- Global Reseller Expedited Package Services 2

Baseline Reference

Docket Nos. MC2013-51 and CP2013-64

PRC Order No. 1746, June 13, 2013

Included Agreements

CP2017-224, expires August 31, 2018
